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SUBJECT: KUWAIT PUBLIC INSTITUTION FOR SOCIAL SECURITY: AN
INVESTMENT POWERHOUSE AND MODEL OF EFFICIENCY

¶1. (SBU) Begin Summary: During a February 7 meeting with the Ambassador, the head of Kuwait's Public Institution for Social Security (PIFSS), the country's government pension agency, outlined the organization's progressive work ethic, organizational structure and global investments, including \$5B worth in the U.S. End Summary

¶2. (SBU) On February 7, Ambassador met with Fahad Mazyan Al-Rajaan, Director General of Kuwait's Public Institution for Social Security (PIFSS), to discuss the organization's extensive investments representing the GOK's official pension fund. Al-Rajaan, a U.S.-educated (American University) business man and government official (32 years of service and head of PIFSS since 1984) proudly pointed to PIFSS' organization, structure, and business development strategy as hallmarks of efficiency for the region.

Organization

¶3. (SBU) Al-Rajaan explained that PIFSS, staffed almost entirely by Kuwaitis (90%), is an autonomous government institution, operating in consultation with the GOK through the Finance Minister (Chairman of PIFSS Board) and managing approximately \$30 billion in assets for its 270,000 Kuwaiti clients (70K retirees, 200K active workers). Al-Rajaan added that the late Amir, Shaykh Jaber Al-Ahmed Al-Sabah, created PIFSS in the early 1970s in an effort to institutionalize the distribution of Kuwait's vast oil revenues to Kuwaiti citizens.

¶4. (SBU) Al-Rajaan noted that PIFSS is a well-respected institution, enjoying good relations with the National Assembly and GOK, sustaining the highest levels of business integrity and efficiency through regular inspections, training programs, and audits, and upholding a well-established commitment to customer service for all its clients, regardless of their wealth or social status. He pointed to PIFSS's 70 percent female staff as a sign of the company's progressive approach and explained that Kuwaiti women can retire at the age of 40 and receive 65% of their original salary. According to Al-Rajaan, PIFSS' \$30B in assets make it the country's second largest investment company after Kuwait Investment Authority (GOK's official investment agency), whose assets are estimated at \$100B.

Investments

¶5. (SBU) On the investment side, Al-Rajaan pointed to Japan as a growing investment priority for PIFSS's substantial overseas investment portfolio (80% of all its investments are abroad with only 20% in Kuwait). He added that PIFSS

investments in the U.S. were close to \$5 billion, managed mainly by PIFSS' New York-based subsidiary, Wafra Investment Advisory Group, staffed by 50 American personnel handling PIFSS investments in real estate, hedge funds, and private equity.

¶6. (SBU) Al-Rajaan described PIFSS' investment strategy as "diverse, conservative, even defensive," with a stated goal of 6.5% return on all investments. He added that PIFSS had been successful over the past 22 years in reaching its targeted return of 6.5% on all investments. He noted that recent returns of 11% and 12% were exceptions given the unprecedented oil boom. He also pointed out that half of PIFSS's investment exposures were in U.S. dollars, mostly Treasury or Eurobonds, with the remainder in the Euro and GCC currencies. He also revealed that PIFSS maintains 10% of its assets in hedge funds, having invested in them since 1988 with positive returns. He noted that the organization must invest in equities in order to maintain its target rate of return.

¶7. (SBU) With regard to Kuwait's booming market, Al-Rajaan predicted an inevitable deceleration over the next three years, pointing to PIFSS investments in "40 good Kuwaiti companies," out of 200 companies, as a prudent investment posture. Al-Rajaan disclosed that PIFSS has a 15% stake in Public Warehousing Company (PWC) and substantial holdings in the country's largest bank (National Bank of Kuwait) and Global Investment House. He commented on Muslim investor interest in Islamic investment mechanisms, explaining that the average Muslim investor prefers the Islamic alternative when given the choice. Commenting that there was a growing misperception in the West about Islam, Al-Rajaan explained that investor preference for Islamic investments are driven

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primarily by benign religious conviction and not extremism. Al-Rajaan also endorsed the Ambassador's call for labor reform to better protect the rights of non-Kuwaiti laborers, suggesting a possible pension fund mechanism for Kuwait's third-country nationals.

Bio Note

¶8. (SBU) Fahad Mazyad Al-Rajaan is a Kuwaiti national, educated at Victoria College in Cairo, Egypt and the American University in Washington, D.C. He has been Director General of PIFSS since 1984 and is also chairman of Ahli United Bank-Bahrain and Wafra Investment Advisory Group in New York. He has also served as chairman of the Egyptian Gulf Bank and Deputy Chairman of the Industrial Bank of Kuwait. He speaks excellent English and enjoys golfing and skiing. He is married and has two daughters and two sons. His sons were educated at Boston and Bentley Colleges, respectively and his daughters have studied at Pepperdine University and the American University of Paris. Al-Rajaan owns homes in Geneva and Miami (Aventura). He plans to retire in 2008 after 35 years of government service to pursue private business ventures.

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